

Department of Legislative Services
Maryland General Assembly
2009 Session

FISCAL AND POLICY NOTE

House Bill 161

(Chair, Economic Matters Committee)(By Request -
Departmental - Insurance Administration, Maryland)

Economic Matters

Finance

Insurance - Company Action Level Events - Property and Casualty Insurers

This departmental bill subjects property and casualty insurers to additional regulation by the Maryland Insurance Administration (MIA) and defines a company action level event for risk-based capital (RBC) reporting requirements.

Fiscal Summary

State Effect: MIA can handle the bill's requirements with existing budgeted resources.

Local Effect: The bill does not affect local finances or operations.

Small Business Effect: MIA has determined that the bill has minimal or no impact on small business (attached). Legislative Services concurs with this assessment.

Analysis

Bill Summary: A company action level event for a property and casualty insurer occurs when total adjusted capital (1) is greater than or equal to its company action level RBC; (2) is less than the product of its authorized control level RBC and 3.0; and (3) triggers the trend test calculation in the property and casualty RBC instructions.

Current Law: On or before the filing date, each domestic insurer has to prepare and submit to the Commissioner a report of its RBC levels for the preceding calendar year. Each report must also be filed with the National Association of Insurance Commissioners (NAIC). If the Commissioner determines that the filed RBC report is inaccurate, the Commissioner adjusts the RBC report to correct the inaccuracy and notifies the insurer of

the adjustment, including a statement of the reason for the adjustment. RBC standards for property and casualty insurers are determined by a formula that follows the RBC instructions developed by NAIC. The formula must take into account and may adjust for the covariance between asset risk, credit risk, underwriting risk, and all other business risks and other relevant risks as stated in NAIC's RBC instructions.

A company action level event occurs when an insurer files an RBC report that indicates the insurer's total adjusted capital:

- is greater than or equal to its regulatory action level RBC; and
- is less than its company action level RBC.

A company action level event occurs for a life insurer when its RBC report indicates the life insurer's total adjusted capital:

- is greater than or equal to its company action level RBC;
- is less than the product of its authorized control level RBC and 2.5; and
- has a negative trend.

In the event of a company action level event, an insurer must develop and submit a plan to the Commissioner. The plan has to (1) identify the conditions that contribute to the company action level event; (2) contain proposals of corrective actions that would result in the elimination of the event; (3) provide financial projections for the current year and four succeeding years; (4) identify key assumptions that impact the insurer's projections; and (5) identify the quality of the problems associated with the insurer's business.

Background: NAIC developed RBC standards as a measure of the capital surplus an insurer should retain in relation to its size and risk profile. RBC is calculated by applying factors to various assets, premiums, and company reserves. The factors applied in the capital requirements calculation are higher for items with the greatest underlying risk, and lower for safer items.

The bill keeps State law consistent with required NAIC standards. Conformity with national standards will allow the State to maintain its accreditation and its ability to serve as the primary regulator of domestic insurers.

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): Maryland Insurance Administration, Department of Legislative Services

Fiscal Note History: First Reader - February 2, 2009
ncs/ljm

Analysis by: Jason F. Weintraub

Direct Inquiries to:
(410) 946-5510
(301) 970-5510

ANALYSIS OF ECONOMIC IMPACT ON SMALL BUSINESSES

TITLE OF BILL: Insurance – Company Action Level Events – Property and Casualty Insurers

BILL NUMBER: HB 161

PREPARED BY: Maryland Insurance Administration

PART A. ECONOMIC IMPACT RATING

This agency estimates that the proposed bill:

☒ WILL HAVE MINIMAL OR NO ECONOMIC IMPACT ON MARYLAND
SMALL BUSINESS

OR

☐ WILL HAVE MEANINGFUL ECONOMIC IMPACT ON MARYLAND
SMALL BUSINESSES

PART B. ECONOMIC IMPACT ANALYSIS

The proposed legislation will have no impact on small business in Maryland.